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RUEHVEN/USMISSION USOSCE 1973
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RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
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SUBJECT: KAZAKHSTAN: NAZARBAYEV ANNOUNCES MAJOR STEPS TO DEAL WITH
GLOBAL FINANCIAL CRISIS

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: President Nazarbayev announced on October 13 major steps the government will take to deal with the global financial crisis. The Samruk state assets holding company and Kazyna Sustainable Development Fund will be merged, with additional state enterprises folded into the new Samruk-Kazyna, which will receive \$5 billion in capitalization from the National (Oil) Fund. An additional \$5 billion from the National Fund will be made available for other anti-crisis measures. World Bank Resident Representative Sergei Shatalov expressed skepticism to us about the Samruk-Kazyna merger. Respected Kazakhstani economist Oraz Zhandosov criticized the move in a press interview. END SUMMARY.

MAJOR STEPS TO DEAL WITH FINANCIAL CRISIS

13. (U) President Nazarbayev outlined at a government meeting on October 13 several major steps that Kazakhstan will undertake to deal with the global financial crisis. He said that the Samruk state assets holding company (which owns, among other enterprises, KazMunaiGas) and the Kazyna Sustainable Development Fund will be merged into the Samruk-Kazyna National Welfare Fund. Within 30 days, the government will transfer its shares in several additional companies -- including Kazakhstan Mortgage Company, Kazakhstan Mortgage Insurance Fund, Housing and Construction Savings Bank, KazAtomProm, Eurasian Natural Resources Corporation, and KazakhMys -- to Samruk-Kazyna. Kazakhstan's seven "social entrepreneurial corporations," which each manage state-owned assets within two of Kazakhstan's 14 oblasts, will also be folded into Samruk-Kazyna. Samruk-Kazyna will receive \$5 billion in capitalization from the National (Oil) Fund. An additional \$5 billion from the National Fund -- the total assets of which are \$27.6 billion -- will be made available for other government measures to address the financial crisis. Presidential Administration Chief Kairat Kelimbetov, who once headed Kazyna, has been named to head the new Samruk-Kazyna. Majilis Speaker Aslan Musin was appointed to replace Kelimbetov at the Presidential Administration.

14. (SBU) At the October 13 government meeting, Nazarbayev labeled the global financial crisis the "worst since the Great Depression." He stressed, however, that that this was also an opportunity for Kazakhstan to "learn how to extract benefits for the country's economy even during a crisis period." He added that "to overcome the crisis is a task of all companies in the country," including foreign companies, and that "companies should demonstrate support for the concrete measures undertaken by the government."

PURPOSE OF SAMRUK AND KAZYNA

15. (SBU) Both Samruk and the Kazyna Sustainable Development Fund were established to improve corporate management and the profitability of government-owned enterprises. Samruk is by far the largest of the Kazakhstani state assets holding companies, with a roster of over 340 companies under its management, including KazMunaiGas, Kazakhstan Temir Zholi (Kazakhstan Railways), KazakhTelecom, KazPost, KazMorTransFlot, and numerous regional power stations. Kazyna was established to serve as an infrastructure development institution, which counted among its primary missions the diversification of the Kazakhstani economy outside of the extractive sector. Its assets include the Kazakhstan Development Bank, the Kazakhstan Innovation Asset Fund, the Corporation for the Development and Promotion of Exports, the Entrepreneurship Development Fund, and Kazakhstani Capital Management. The National (Oil) Fund, which is also known as the Fund for Future Generations, is fed directly by revenues from the extractive sector and is meant for use during times of extreme economic need, as well as to provide a cushion against potential crashes in world commodity prices and to prevent "Dutch disease."

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SKEPTICISM FROM THE WORLD BANK...

16. (SBU) In an October 15 meeting with the Ambassador, World Bank Country Manager for Kazakhtan Sergei Shatalov noted past World Bank reluctance to directly engage the Kazakhstani state assets holding companies because of their lack of transparency and inefficient corporate structures, and the perception that they serve primarily as a means for high executive compensation for the elite. He described the new Samruk-Kazyna as a "super monster" that may prove to be even less transparent than its predecessors. Shatalov termed Samruk-Kazyna as the inefficient brainchild of Kelimbetov, who according to Shatalov may now have his last chance to prove the value of such holding companies. At the same time, Shatalov praised Prime Minister Masimov for privately soliciting advice from international financial institutions on handling the financial crisis.

... AND FROM ZHANDOSOV

17. (SBU) Respected Kazakhstani economist Oraz Zhandosov, who was formerly a leader of the Azat opposition party, praised the government's acknowledgement of the severity of the financial crisis in an interview with the KazTAG wire service, but said it is inappropriate to consider the merger of Samruk and Kazyna as vital for the government's anti-crisis program. Calling the merger a "mistake," Zhandosov noted that overcoming the financial crisis is a short-term goal, while the merger reflects longer-term governmental aspirations with little connection to the immediate financial turmoil.

18. (SBU) BIO NOTES: Newly-appointed Samruk-Kazyna head Kairat Kelimbetov was born in Almaty in 1969. He received an undergraduate degree from Moscow State University and did post-graduate studies at the Kazakh State Academy of Management. Kelimbetov participated in a U.S.-government sponsored Citizen Exchange Program in 1997 and studied at Georgetown University in 1999 as a Pew Economic Freedom Fellow. In the late 1990's, he worked in various government positions involving economic planning and analysis. Kelimbetov was appointed First Vice Minister of Finance in June 2001 -- but was dismissed from that post in November 2001 when he briefly joined the opposition Democratic Choice of Kazakhstan movement. In January 2002, he was reappointed First Vice Minister of Finance. From

August 2002 until April 2006, he served as Minister of Economy and Budget Planning. From April 2006 to January 2008, he was head of the Kazyna Sustainable Development Fund. In January 2008, he was appointed head of the Presidential Administration, replacing Adylbek Dzhaksybekov. END BIO NOTES.

19. (SBU) COMMENT: This is the first time that Kazakhstan is taking money out of the National (Oil) Fund. While the creation of Samruk-Kazyna may have some economic logic, it is also plausible that the government is taking advantage of the financial crisis to initiate an asset consolidation to the benefit of certain elite groups. The move puts the lion's share of Kazakhstan's state-owned enterprises under the direct control of Kairat Kelimbetov. The government previously announced in September -- before the announcement of the U.S. government's financial bailout package -- that it was creating a multi-billion dollar "distressed assets fund" to buy up non-performing loans, including mortgages, from Kazakhstani banks, with the aim of reselling them in several years, ideally at a profit. END COMMENT.

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